

Claims

What is claimed is:

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5 A method for minimizing transfer tax liability of a grantor for the transfer of the value of nonqualified stock options to a family member grantee, the stock options having a stated exercise price and a stated period of exercise, the method comprising:

10 establishing a Grantor Retained Annuity Trust (GRAT);
funding said GRAT with assets comprising stock options, the stock options having a determined value at the time the transfer is made;

15 setting a term for said GRAT and a schedule and amount of annuity payments to be made from said GRAT;
performing a valuation of the stock options as each annuity payment is made and determining the number of stock options to include in the annuity payment; and

20 15 providing for removing stock options from said GRAT and substituting assets of equivalent value prior to the natural termination of said GRAT or prior to the end of said exercise period of the options, whichever comes first.—

2. The method of claim 1 wherein the amount of the annuity is set by determining an optimum percentage of said GRAT assets that will be said annuity with the purpose of reducing the taxable gift value.

3. The method of claim 1 wherein the step of funding includes contributing supplemental assets in addition to the stock options.

4. The method of claim 3 wherein said supplemental assets comprise an amount of cash.

25 5. The method of claim 4 wherein the amount of cash to be included in said transfer to said GRAT is equal to at least the first year's annuity, whereby the cash may be used to defer the payment of said options in said annuity by including some or all of said cash in at least one annuity payment, thereby reducing the number of said options required to be paid as part of said annuity, and increasing the number of said options remaining in said GRAT.

6. The method of claim 5 wherein the amount of cash comprises an additional amount of cash at least equal to the total of the end of year evaluated option values for one option for each year in the life of the GRAT, whereby said additional amount of cash may be used to pay the difference each year between
5 the required annuity payment and the value of the options included in the annuity payment.

7. The method of claim 4 wherein the amount of cash to be included in said transfer to said GRAT is equal to at least the first year's annuity on an estimated present value basis assuming a rate of return on the cash in said GRAT,
10 whereby the cash may be used to defer the payment of said options in said annuity by including some or all of said cash in at least one annuity payment, thereby reducing the number of said options required to be paid as part of said annuity, and increasing the number of said options remaining in said GRAT.

8. The method of claim 7 wherein the amount of cash comprises an
15 additional amount of cash at least equal to the total of the end of year evaluated option values for one option for each year in the life of the GRAT, whereby said additional amount of cash may be used to pay the difference each year between the required annuity payment and the value of the options included in the annuity payment.

20 9. The method of claim 3 wherein said supplemental assets comprise an amount of stock.

10. The method of claim 1 further comprising the step of removing some or all of the stock options from said GRAT and substituting into said GRAT assets of equivalent value.

25 11. The method of claim 10 wherein the step of removing some or all of the stock options and substituting into said GRAT assets of equivalent value is performed following the final annuity payment but prior to the termination of said GRAT.

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12. The method of claim 1 further comprising the step of determining the term of said GRAT depending on the grantor's life expectancy and the nonqualified stock option life expectancy.

13. A method for minimizing transfer tax liability of a grantor for the transfer of the value of nonqualified stock options to a family member grantee, the stock options having a stated exercise price and a stated period of exercise, the method comprising:

- establishing a Grantor Retained Annuity Trust (GRAT);
- funding said GRAT with assets comprising stock options, the stock options having a determined value at the time the transfer is made;
- setting a term for said GRAT and a schedule and amount of annuity payments to be made from said GRAT;
- performing a valuation of the stock options as each annuity payment is made and determining the number of stock options to include in the annuity payment;
- providing for removing stock options from said GRAT and substituting assets of equivalent value prior to the natural termination of said GRAT or prior to the end of said exercise period of the options, whichever comes first; and
- establishing an Irrevocable Life Insurance Trust (ILIT) that provides a life insurance policy on the grantor with the family member grantees as named beneficiaries, said ILIT to receive said assets of said GRAT on said GRAT's natural termination.

14. The method of claim 13 wherein the amount of the annuity is set by determining an optimum percentage of said GRAT assets that will be said annuity with the purpose of reducing the taxable gift value.

15. The method of claim 13 wherein the step of funding includes contributing supplemental assets in addition to the stock options.

16. The method of claim 15 wherein said supplemental assets comprise an amount of cash.

17. The method of claim 16 wherein the amount of cash to be included in said transfer to said GRAT is equal to at least the first year's annuity, whereby the cash may be used to defer the payment of said options in said annuity by including some or all of said cash in at least one annuity payment, thereby reducing the number of said options required to be paid as part of said annuity, and increasing the number of said options remaining in said GRAT.

18. The method of claim 17 wherein the amount of cash comprises an additional amount of cash at least equal to the total of the end of year evaluated option values for one option for each year in the life of the GRAT, whereby said additional amount of cash may be used to pay the difference each year between the required annuity payment and the value of the options included in the annuity payment.^{19.} The method of claim 16 wherein the amount of cash to be included in said transfer to said GRAT is equal to at least the first year's annuity on an estimated present value basis assuming a rate of return on the cash in said GRAT, whereby the cash may be used to defer the payment of said options in said annuity by including some or all of said cash in at least one annuity payment, thereby reducing the number of said options required to be paid as part of said annuity, and increasing the number of said options remaining in said GRAT.

20. The method of claim 19 wherein the amount of cash comprises an additional amount of cash at least equal to the total of the end of year evaluated option values for one option for each year in the life of the GRAT, whereby said additional amount of cash may be used to pay the difference each year between the required annuity payment and the value of the options included in the annuity payment.

21. The method of claim 15 wherein said supplemental assets comprise an amount of stock.

22. The method of claim 13 further comprising the step of removing some or all of the stock options from said GRAT and substituting into said GRAT assets of equivalent value.

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23. The method of claim 22 wherein the step of removing some or all of the stock options and substituting into said GRAT assets of equivalent value is performed following the final annuity payment but prior to the termination of said GRAT.

5 24. The method of claim 13 wherein said ILIT is established at the time said GRAT is established.

25 10 A method for minimizing transfer tax liability of a grantor for the transfer of the value of nonqualified stock options to a family member grantee, the stock options having a stated exercise price and a stated period of exercise, the method comprising:

establishing a Grantor Retained Annuity Trust (GRAT);

funding said GRAT with assets comprising stock options, the stock options having a determined value at the time the transfer is made;

setting a term for said GRAT and a schedule and amount of annuity payments to be made from said GRAT;

15 performing a valuation of the stock options as each annuity payment is made and determining the number of stock options to include in the annuity payment;

determining an optimum percentage of said GRAT assets that will be said annuity with the purpose of reducing the taxable gift value;

20 including an amount of cash in said transfer to said GRAT at least equal to the first year's annuity on an estimated present value basis assuming a rate of return on said amount of cash in said GRAT;

deferring the payment of said options in said annuity by including some 25 or all of said cash in at least one annuity payment, thereby reducing the number of said options required to be paid as part of said annuity, and increasing the number of said options remaining in said GRAT;

providing for removing the stock options from said GRAT and substituting assets of equivalent value prior to the natural termination of said

GRAT or prior to the end of said exercise period of the options, whichever comes first;

removing some or all of the stock options and substituting into said GRAT assets of equivalent value following the final annuity payment but prior to the termination of said GRAT; and

establishing at the time said GRAT is established an Irrevocable Life Insurance Trust (ILIT) that provides a life insurance policy on said grantor with said family member grantees as named beneficiaries, said ILIT to receive said assets of said GRAT on said GRAT's natural termination.

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26. A memory storage medium for use with a computer, said storage medium being adapted for storing signals, including program signals for causing the computer to provide for:

establishing a Grantor Retained Annuity Trust (GRAT);

funding said GRAT with assets comprising stock options, the stock options having a determined value at the time the transfer is made;

setting a term for said GRAT and a schedule and amount of annuity payments to be made from said GRAT;

performing a valuation of the stock options as each annuity payment is made and determining the number of stock options to include in the annuity payment; and

providing for removing stock options from said GRAT and substituting assets of equivalent value prior to the natural termination of said GRAT or prior to the end of said exercise period of the options, whichever comes first.

27. The memory storage medium of claim 26 wherein said storage medium is further adapted to store program signals that provide for determining an optimum percentage of said GRAT assets that will be said annuity with the purpose of reducing the taxable gift value.

28. The memory storage medium of claim 26 wherein said storage medium is further adapted to store program signals that provide for contributing supplemental assets in addition to the stock options.

29. The memory storage medium of claim 26 wherein said storage medium is further adapted to store program signals that provide for contributing said supplemental assets that comprise an amount of cash.

30. The memory storage medium of claim 29 wherein said storage medium
5 is further adapted to store program signals that provide for including said amount of cash in said transfer to said GRAT equal to at least the first year's annuity, whereby the cash may be used to defer the payment of said options in said annuity by including some or all of said cash in at least one annuity payment, thereby reducing the number of said options required to be paid as part
10 of said annuity, and increasing the number of said options remaining in said GRAT.

31. The method of claim 30 wherein the amount of cash comprises an additional amount of cash at least equal to the total of the end of year evaluated option values for one option for each year in the life of the GRAT, whereby said
15 additional amount of cash may be used to pay the difference each year between the required annuity payment and the value of the options included in the annuity payment.

32. The memory storage medium of claim 29 wherein said storage medium is further adapted to store program signals that provide for including said
20 amount of cash in said transfer to said GRAT equal to at least the first year's annuity on an estimated present value basis assuming a rate of return on the cash in said GRAT, whereby the cash may be used to defer the payment of said options in said annuity by including some or all of said cash in at least one annuity payment, thereby reducing the number of said options required to be
25 paid as part of said annuity, and increasing the number of said options remaining in said GRAT.

33. The method of claim 32 wherein the amount of cash comprises an additional amount of cash at least equal to the total of the end of year evaluated option values for one option for each year in the life of the GRAT, whereby said
30 additional amount of cash may be used to pay the difference each year between

the required annuity payment and the value of the options included in the annuity payment.

34. The memory storage medium of claim 26 wherein said storage medium is further adapted to store program signals that provide for removing some or all 5 of the stock options from said GRAT and substituting into said GRAT assets of equivalent value.

35. The memory storage medium of claim 34 wherein said storage medium is further adapted to store program signals that provide for removing some or all of the stock options and substituting into said GRAT assets of equivalent value 10 following the final annuity payment but prior to the termination of said GRAT.

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